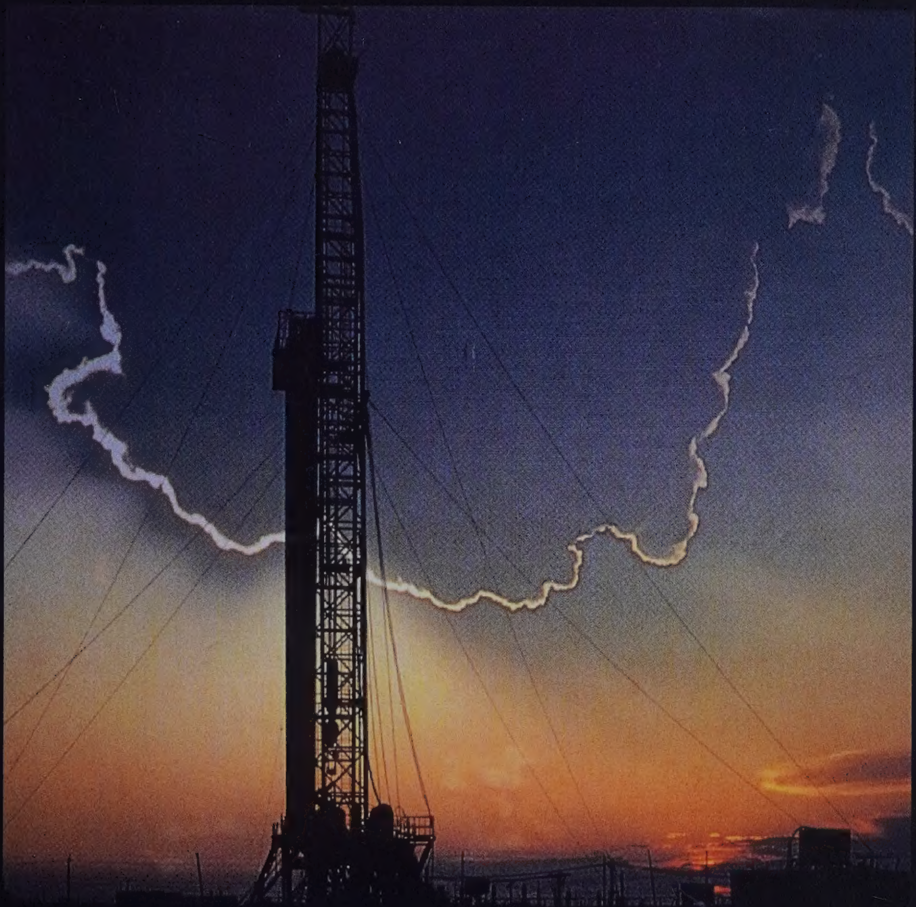
MIRAGE ENERGY LTD



2006 Annual Report

Gold Creek 4-26 Pipeline Construction

Mirage Energy Ltd.

REPORT FOR: March 17th to December 31st, 2006

Highlights

2006

- **Incorporated and commenced operations on March 17th, 2006**
- **Producing oil sales in August, 2006**
- **Drilled 35 wells at an average working interest of 22 %**
- **Year end reserves of 516M boe (proved plus probable).**
- **Finding and development costs of $11 per bbl**
- **Drilling success of 86 %**

2007

- **Current Production of 129 boepd**
- **Additional production capability of 102 boepd waiting on tie-ins.**
- **Drilled 40 wells to date (8.6 net wells)**

REPORT TO THE SHAREHOLDERS OF MIRAGE ENERGY BY THE PRESIDENT

To The Shareholders

Mirage Energy Ltd. is pleased to report operating results for the year ended December 31, 2006. Mirage was incorporated and commenced operations on March 17th, 2006. The Company aggressively pursued a number of farm-ins and acquisitions to secure land. By year end, Mirage participated in the drilling of 35 wells (7.7 net wells) in Alberta and Saskatchewan, resulting in 21 heavy oil wells, 3 light oil wells, 6 gas wells and 5 abandoned wells. At December 31st, 2006, Mirage was producing 117 boepd consisting of 67 bpd heavy oil and 50 bpd light oil. In the first quarter of 2007, Mirage continued with an aggressive drilling program by participating in 5 additional wells (average W.I. 20%), resulting in 1 heavy oil well, 2 light oil wells and 2 abandoned wells. During March and April, 2007, spring breakup severely hampered the Company's ability to initiate completions, tie-ins and ultimately optimize production. Production peaked at 150 boepd before these operational delays. Mirage has resolved most of its production deferral issues and is presently producing 129 boepd (67 bpd heavy oil, 50 bpd light oil and 70 mcfd gas). The Company has an additional 102 boepd (23 bpd oil and 480 mcfd gas) which is waiting on facility optimizations and tie-ins.

Mirage's strong growth is attributed to a strong technical team and its ability to secure land deals that have led to quality drilling opportunities. The Company has an inventory of 30 drillable locations (average W.I. 31%) that have been identified with either 2D or 3D seismic. For the remainder of 2007, Mirage plans to participate in the drilling of 11 development wells (8 heavy oil wells, 2 light oil wells and 1 gas well) at an average working interest of 31 percent. These wells are anticipated to have a significant positive impact on the Company's production and reserve base.

With an experienced Board of Directors and a strong technical team in place, Mirage is committed to the creation of value for its shareholders.

On behalf of the Board of Directors

Rene J. LaPrade
President and CEO
June 1st, 2007

Core Areas

Lloydminster, Alberta/ Buzzard, Saskatchewan
Grande Prairie, Alberta
Central Alberta

RESERVES:

SUMMARY OF RESERVES AS OF DECEMBER 31st, 2006

Reserve Category	*Light Oil* (Mbbls)	*Heavy Oil* (Mbbls)	*Natural Gas* (mmscf)	*NGL* (Mbbls)
Developed Producing	20	96	-	-
Developed Non-Producing	-	6	330	2
Undeveloped	-	100	-	-
TOTAL PROVED	20	202	330	2
Probable	7	248	100	1
TOTAL PROVED + PROBABLE	27	450	430	3
Possible	-	68	-	-
TOTAL PROVED+PROBABLE+POSSIBLE	27	518	430	3

Note:
The aforementioned reserve report does not include the recently drilled and producing Halfway oil well at Gold Creek.

- **Total Proved reserves of 279 M boe**
- **Total Proved plus probable reserves of 516M boe**
- **Finding and development cost of $11 per boe**

Gold Creek 4-26
Facility

Drilling Statistics:

	2006		2007		Total	
	Gross	Net	Gross	Net	Gross	Net
Heavy Oil	21	5.05	1	0.25	22	5.30
Light Oil	3	0.65	2	0.30	5	0.95
Gas	6	1.18	0	0.00	6	1.18
Abandoned	5	0.85	2	0.31	7	1.16
TOTAL	35	7.73	5	0.86	40	8.59

Mirage has participated in the drilling of 35 wells (7.7 net wells) in Alberta and Saskatchewan, resulting in 21 heavy oil wells, 3 light oil wells, 6 gas wells and 5 abandoned wells. This equates to an 86 % drilling success rate. In the first quarter of 2007, Mirage continued with an aggressive drilling program by participating in 5 additional wells (average W.I. 20%), resulting in 1 heavy oil well, 2 light oil wells and 2 abandoned wells. The Company has drilled a total of 40 wells (8.6 net) to date.

Operations Review for 2006

Western Saskatchewan

Typical wellsite, Buzzard, Sask.

Buzzard: Mirage participated in the drilling of 14 locations at Buzzard with 10 wells currently on production, 1 well awaiting completion and 3 wells awaiting recompletions. The wells have been completed in the Lloydminster sand and are currently producing 162 bopd (28 bopd net) from the 10 wells. Mirage has identified 5 infill development locations. Three of these locations will be drilled in 2007.

Soda Lake: Mirage participated for a 20% working interest in the drilling of a well at 5-22-47-24 W3 which resulted in a cased Lloydminster/Sparky heavy oil well. The well is currently producing oil from the Lloydminster sand at a rate of 30 bopd (6 bopd net). Geologic and seismic mapping indicates potential for two follow-up locations. Mirage will participate in the drilling of one of these locations in 2007.

Hillmond: Mirage participated for 20% working interest in the drilling a prospect that was cased for Lloyd sand. It is currently shut-in due to mechanical issues. Mirage and its partners are currently evaluating the potential to redrill this prospect.

Eastern Alberta

Lloydminster 16-14 oilwell

Lloydminster area: At year end, the Company had participated in the drilling and completion of 6 heavy oil wells (2.5 net wells) in the Lloydminister area. The wells have multi-zone potential and are completed in either the Lloyd, Sparky or GP heavy oil zones. None of these wells have been dually completed for commingled production due to sand production issues. The Lloydminister area wells presently produce a total of 90 bopd or 40 bopd net to Mirage. Subsequent to year end, an offset well was drilled at 15-14, which has been cased for GP heavy oil. The well has been completed and surface facilities are presently being installed. The Company is currently completing surface preparation work to drill two wells (50% W.I.) in the Lloydminister/Blackfoot area in the 3rd quarter of 2007.

A non-operated well was drilled at Morgan, resulting in a cased Sparky oil well. The well produced at uneconomic rates and is currently waiting on dry weather, before an uphole gas zone can be completed.

Mirage currently has a 23% interest in 22 wells in the Lloydminster area of Alberta and the Buzzard areas of western Saskatchewan. Mirage is planning to drill an additional 8 development heavy oil wells (2.8 net wells) during the 3rd and 4th quarter of 2007 at Lloydminister, Ab (2 wells), Hayter, Ab (2 wells), Buzzard, Sk (3 wells) and Soda Lake, Sk (1 well).

GAS/LIGHT OIL (Grande Prairie area)

Gold Creek
Area Construction

At Gold Creek 4 – 26 (10% working interest) two zones were completed in the 4th quarter of 2006. At December 31st, 2006, testing of the well had resulted in a Halfway and Nikannassin gas well. Pipeline and well site facilities were completed in April, 2007. Currently, the Halfway gas is producing at a rate in excess of 700 mcf/d. The Nikanassin zone which was completed, stimulated and tested will be placed on production at a later date.

Mirage participated in a second well in the Gold Creek area at a 17 % working interest in December, 2006. The well was cased as a Halfway oil well in early January, 2007 and the well was brought on production in April, 2007 at an average production rate of 85 bopd. Mirage and its partners have identified two development locations on 3D seismic for this 640 acre prospect. One of these locations will be drilled in the 4th quarter of 2007.

During November, 2006, Mirage participated for 15% WI in the drilling of a Cadotte gas well in the Simonette area of Alberta. The well was brought on production at 1 mmcfd in February, 2007. As the well has the potential to deliver in excess of 3 mmcfd, the Operator has shut-in the well and has initiated operations to tie-in to a high capacity pipeline. This tie-in is anticipated to be completed before the end of the 3rd quarter, 2007.

At Tangent, the Montney oil well (working interest 30%) placed on production in early November of 2006 has produced intermittently due to weather related issues. The Operator has recently upgraded the
location and access to eliminate any production deferrals. The well is presently producing 120 bopd. Mirage and its partners are presently evaluating a potential development location offsetting the well on this 640 acre prospect.

Mirage participated for 20% working interest in two Paddy gas tests at Sinclair. The first well was drilled in the 4th quarter of 2006 and the second well was drilled in the 1st quarter of 2007. Both wells encountered poor sand quality and the wells were subsequently abandoned.

At Pembina, the Cardium oil well (25% working interest) drilled and completed in the 3rd quarter of 2006 is presently producing 6 bopd and will be recompleted for uphole gas once the Cardium zone is depleted.

At Willesden Green (17% working interest), an Ellerslie gas well was drilled and completed in the 3rd quarter of 2006. Production testing indicated that the Ellerslie formation is limited and partially depleted. The Operator is currently evaluating tie-in options for this well.

At Evi, Alberta, Mirage participated at a 25 % working interest in a Granite Wash oil prospect. The well was cased as a Granite Wash oil well in the 3rd quarter of 2006 but did not production test any economical quantities of oil and the well was subsequently abandoned.

Mirage also participated for a 20% WI in an Ellerslie gas test at Woodbend. This well was drilled and abandoned in the 1st quarter of 2007.

GAS/LIGHT OIL (Southern Alberta)

In the Little Bow area of southern Alberta, Mirage and its partners acquired a seismic option on 13 sections of land with full 3D coverage. Mirage participated in a re-entry of the 16-35 well at Little Bow (25% W.I.) and earned an interest in 1280 acres. The well was completed in the Mississippian zone and resulted in non-commercial production rates. This zone was subsequently abandoned. Mirage and its partners are currently evaluating uphole gas potential on this well and two other cased wells in the Little Bow area.

At Hector, Mirage participated in the drilling of two wells at a 10 percent working interest in the 3rd and 4th quarters of 2006. The first well was drilled to the Nisku but had to be prematurely cased at the Mississippian zone due to drilling problems. The well was completed in the Mississippian and tested at production rates in excess of 50 bopd. The Operator is currently waiting on approvals to install production facilities onsite. The second well was successfully redrilled to the Nisku zone and found to be non-productive.

LIGHT OIL (South-East Saskatchewan)

Mirage participated for a 25% working interest in the drilling of horizontal Midale Vuggy formation well. The well was successfully drilled horizontally 400 meters in the Vuggy zone for light oil production in February of 2007. The well tested large volumes of inflow with marginal rates of oil due to fracturing in the horizontal section. The Operator will be installing a packer system in the 3rd quarter of 2007 to isolate the fractured portion of the horizontal section in an effort to increase oil productivity.

Mirage's growth is attributed to a strong technical team and its ability to secure land deals that have led to quality drilling opportunities. The Company has a current inventory of 30 drillable prospects (average W.I. 31%) that have been identified with either 2D or 3D seismic. The Company will continue to technically evaluate and participate in a balanced program of low and higher risk drilling prospects as its strategy for future growth. For the remainder of 2007, Mirage plans to participate in the drilling of 11 development locations which will have a significant positive impact on the Company's production and reserve base.

MIRAGE ENERGY LTD.
MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended December 31st, 2006

Management's Discussion and Analysis ("MD&A") of financial results is presented by Mirage Energy Ltd. ("Mirage" or the "Company") to review financial results for the year ended December 31st, 2006. The information has been prepared by management in accordance with Canadian generally accepted accounting principles ("GAAP") and should be read in conjunction with the audited financial statements for the period ended December 31, 2006.

Forward-looking Statements

This disclosure includes statements about expected future events and/or financial results that are forward-looking in nature and subject to substantial risks and uncertainties that may cause the actual results, performance or achievements expressed or implied by such forward-looking statements to differ. These risks include, but are not limited to: petroleum and natural gas price volatility, interest rate fluctuations, availability of services and supplies, market competition, uncertainties in the estimates of reserves, the timing of capital expenditures, production levels and the adequacy of funding for capital investments. Mirage Energy Ltd. cautions that actual performance will be affected by a number of factors, many of which are beyond its control.

Non-GAAP Financial Measures

This MD&A includes references to financial measures commonly used in the oil and gas industry. The terms "net petroleum and natural gas revenue" (petroleum and natural gas sales less royalties, production expenses and transportation costs) and "net cash flow from operations" (net loss for the period adjusted for non-cash items in the statement of operations) are not GAAP measures and do not have standardized meanings prescribed by GAAP.

BOE Presentation

The term barrel of oil equivalent ("boe") may be misleading, particularly if used in isolation. All boe conversions in this report are derived by converting natural gas to oil in the ratio of six thousand cubic feet of natural gas to one barrel of oil. This conversion ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

Selected Annual Information

Year or period ended December 31	2006
($ except for share information)	
Petroleum and natural gas revenue	197,306[2]
Total revenues, net of royalties	168,665[2]
Funds from (used by) operations	(225,886)
Net loss	(782,649)
Loss per common share – basic and diluted	
Total assets	8,786,500
Working capital	382,729
Total debt	Nil
Shareholders' equity	7,553,336
Common shares outstanding:	
- basic & diluted	23,282,417

[1] The Company commenced operation on March 17, 2006.
[2] The Company commenced oil and gas sales in August 2006.

Selected quarterly information

	Net Income (Loss)	Earnings per Basic Share	Net Production Revenue
2006 Q4	(232,238)	(0.03)	145,812
2006 Q3	(550,231)	(0.06)	22,853

Overview

As at December 31st, 2006, the Company reported a cash balance of $775,285 and a working capital position of $382,729. The Company had net revenues of $168,665 for the period from incorporation March 17, 2006 to December 31, 2006. The Company incurred a net loss of $782,649 for the period of incorporation March 17, 2006 to December 31, 2006. Adjusting the net loss for non-cash items of depletion, depreciation, accretion and stock based compensation the Company had a net loss of $225,886 for the period of incorporation March 17, 2006 to December 31, 2006. The Company incurred capital expenditures totaling $7,307,333 for the period of incorporation of March 17, 2006 to December 31, 2006. Mirage spent $1,253,887 on land, $5,583,215 on exploration and development drilling and $470,323 on well equipment and facilities, for the year ended December 31, 2006.

Production

Mirage experienced operational difficulties with tie-in delays in the fourth quarter and production at year end averaged 96 bopd, consisting of 81 bpd heavy oil and 15 bpd of light oil. Mirage's current production is 129 boepd, consisting of 67 bpd heavy oil, 50 bpd of light oil and 70 mcfd gas. The Company has an additional production capability of 102 boepd (23 bpd oil and 480 mcfd gas) which is waiting on facility optimizations and tie-ins.

Revenue and Royalties

Oil sales represented 100% of the total gross revenues for the first year. Crown royalties averaged 5.3% of gross sales and all other royalties averaged 9.1%. Revenues continue to increase as production behind pipe is tied in and wells drilled are completed and placed on production.

Production Expenses

Production expenses totaled $108,154 for the year. The production costs are expected to lessen as the wells are no longer in start up phase

General and Administrative Costs

General and administrative ("G&A") expenses totaled $45,313 for the period of incorporation March 17, 2006 to December 31, 2006.

Depletion and Accretion

Depletion and accretion costs were $136,726 for the period of incorporation March 17, 2006 to December 31, 2006.

Capital Expenditures

	Three Months Ended December 31, 2006	Period of incorporation to December 31, 2006
Land acquisitions	$ 476,118	$1,253,887
Exploration & Development drilling	$4,111,125	$5,583,123
Well equipment and facilities	$ 292,557	$ 470,323
Total	**$4,879,800**	**$7,307,333**

Cash Flow from Operations Period of incorporation to 3 month period

	December 31, 2006	December 31, 2006
Gross revenues	$ 197,306	$ 168,452
Royalties	$ 28,641	$ 22,640
Operating Expenses	$ 108,154	$ 84,329
Net Cash Flow from Operations	$ 60,511	$ 61,483

Liquidity and Capital Resources

The Company had a cash balance of $775,285 and working capital of $550,110 as of December 31, 2006. The Company has sufficient working capital to meet all commitments to which it is currently committed. The Company is in the process of securing a credit line facility with it's financial institution.

The Company issued the following flow-through shares through private placements:

Date	Number of shares	Price per share	Value received	Class	Flow-through Renounced 2006
May 26, 2006	3,770,000	$0.25	$ 942,500	CEE	$ 942,500
Aug 24, 2006	7,859,000	$0.50	$ 3,914,500	CDE	$ 3,057,500
Dec 15, 2006	1,000,000	$0.55	$ 550,555	CDE	$ 550,000
Dec 29, 2006	500,000	$0.60	$ 300,000	CEE	$ 300,000
Dec 29, 2006	1,344,278	$0.55	$ 739,353	CDE	$ 221,806
Dec 29, 2006	672,139	$0.50	$ 403,283	CDE	$ 403,283
Dec 29, 2006	120,000	$0.75	$ 120,000	CDE	$ 90,000
TOTALS	15,265,417		$ 6,970,191		$ 5,565,089

The Company is committed to renounce the remaining CDE expenditures as follows:

30% in 2007
30% in 2008
10% in 2009

Related party transactions

The Company had the following related party transactions measured at the exchange rate, which is the amount established and agreed to by the related parties and which are similar to those negotiable with third parties:

The Company owes a related Company by virtue of common directors $700,706 included in accounts payable and accrued liabilities for costs associated with joint venture operations during the period. In addition the Company paid $85,536 with respect to general and administrative costs for the period and 69,709 for office rent.

Subsequent events

The Company obtained a revolving operating loan at an interest rate of prime plus 1%. The loan is due on demand and is secured by a general security agreement.

The Company granted 350,000 stock options at an exercise price of $0.50 for a term of five years with vesting provisions. The Company also granted 250,000 stock options at an exercise price of $0.40 for a term of five years with vesting provisions.

Subsequent to the year end 350,000 stock options were cancelled and 175,000 stock options expired. These options had an exercise price of $0.40.

Critical Accounting Estimates

Management is required to make judgments, assumptions and estimates in the application of generally accepted accounting principles that have a significant impact on the financial results of the Company.

Full Cost

The Company follows the full-cost method of accounting for oil and natural gas properties, whereby all costs associated with the exploration for, and development of, petroleum and natural gas reserves, whether productive or unproductive, are capitalized in cost centers. Costs capitalized include land acquisitions costs, geological and geophysical expenditures, rentals on undeveloped properties and drilling and overhead expenses related to exploration and development activities. Proceeds from disposition of property are credited to the net book value of the property and equipment. Gains and losses are not recognized upon disposition of oil and gas properties, unless the disposition would significantly alter the rate of depletion.

Costs capitalized are depleted and amortized using the unit-of-production method based on gross proved oil and gas reserves as determined by independent engineers. For purposes of the depletion calculation, proved oil and gas reserves are converted to a common unit of measure on the basis of the relative energy content of 6,000 cubic feet of natural gas per barrel of oil.

In applying the full cost method, the Company calculates a ceiling test for each cost centre whereby the carrying value of property and equipment is compared at each reporting period to the sum of the undiscounted cash flows expected to result from the future production of proved reserves and the sale of unproved properties. Cash flows are estimated using fourth party quoted forward prices, adjusted for transportation and quality, less estimated costs directly associated with the development, production and sale of reserves. Should the ceiling test result in an excess carrying value, the Company would then measure the amount of impairment for the cost centre by comparing the carrying amounts of property and equipment to an amount equal to the estimated net present value of future cash flows from proved plus probable reserves and the sale of unproved properties. A risk-free interest rate is used to arrive at the net present value of the future cash flows. Any excess carrying amount would be recorded as a permanent impairment.

Stock-based Compensation

The Company uses the fair value method of accounting for options granted to employees and consultants. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model and charged to earnings over the vesting period with a corresponding increase in contributed surplus. Upon the exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital

Multilateral instrument 52-109

Effective March 2006, all reporting issuers in Canada are subject to new disclosure requirements as per Multilateral Instrument 52-109 ("MI 52-109"). As a result of MI 52-109 the Chief Executive Officer ("CEO") and the Chief Financial Officer (‘CFO") have to certify that they have designed internal controls over financial reporting to provide reasonable assurance over the reliability of financial reporting and the preparation of external financial statements in compliance with GAAP. In addition, they are subject to a second certification that they have ensured disclosure of changes in internal control that has had or may have a material effect on the Company’s internal control.

Disclosure Controls and Procedures

The Company has disclosure controls and procedures to ensure that information required to be disclosed by Mirage is assembled and communication to management. The Company’s CEO and CFO have concluded, based on their evaluation as of the end of the period covered by the annual filings, that disclosure controls and procedures are effective to provide reasonable assurance that material information related to Mirage is made known to them by others within the organization, except as noted below. Though the CEO and CFO certify that Mirage’s disclosure controls and procedures are effective to provide a reasonable level of assurance, they are not able to conclude that the disclosure controls and procedures are capable of preventing all frauds and errors. A control system, no matter how well conceived or administrated, can

provide only reasonable, not absolute, assurance that the objective of the control system are met.

Internal Controls over Financial Reporting

The CEO and CFO of Mirage are responsible for designing internal controls over financial or causing them to be designed under their supervision in order to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purpose in a accordance with Canadian GAAP. Management has assessed the design of the Company's internal control over financial reporting as of the end of the period by the annual filings and have certified that the controls over financial reporting are effective.

Through the review of the records by the CEO and CFO the Company has identified that the recording of joint venture receivable, payable and expenditure transactions volume has increased significantly requiring the addition of accounting staff. The Company is actively recruiting qualified personnel.

Exploration, Development and Production Risks

Oil and natural gas exploration involves a high degree of risk, which even with a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that expenditures made on future exploration by Mirage will result in new discoveries of oil and natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones, tools lost in the hole and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The long-term commercial success of Mirage depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that Mirage will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, Mirage may determine that current markets, terms of acquisition and participations or pricing conditions make such acquisitions or participations uneconomic. Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recover of drilling, completion and operating cost. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rate over time, production delays and declines from normal field operating

conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blowouts, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

Mirage Energy Ltd.

Audited Financial Statements

For the period from incorporation on March 17, 2006 to December 31, 2006

mackay.ca

CHARTERED
ACCOUNTANTS

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Auditors' Report

To the Shareholders of Mirage Energy Ltd.

We have audited the balance sheet of Mirage Energy Ltd. as at December 31, 2006 and the statements of operations and deficit and cash flows for the period from incorporation on March 17, 2006 to December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2006 and the results of its operations and cash flows for the period from incorporation on March 17, 2006 to December 31, 2006 in accordance with Canadian generally accepted accounting principles

(Signed) "MacKay LLP"

Calgary, Canada
April 23, 2007

Chartered Accountants

Mirage Energy Ltd.

Balance Sheet

December 31,	2006
Assets	
Current	
Cash and cash equivalents	$ 775,285
Accounts receivable	641,405
Prepaid expenses	15,982
	1,432,672
Property, plant and equipment (note 4)	7,353,828
	$ 8,786,500
Liabilities	
Current	
Accounts payable and accrued liabilities (note 11)	$ 1,049,943
Asset retirement obligations (note 6)	183,221
	1,233,164
Shareholders' Equity	
Share capital (note 7)	7,735,313
Warrants (note 7)	180,635
Contributed surplus (note 8)	420,037
Deficit	(782,649)
	7,553,336
	$ 8,786,500

Commitments (note 10)
Subsequent events (note 12)

Approved by the Board:

(Signed) "Peter J. Boswell"_____, Director

(Signed) "Rene Laprade"_______, Director

Mirage Energy Ltd.

Statements of Operations and Deficit

Period from incorporation on March 17, 2006 to December 31,	2006
	(Note 1)
Revenue	
Petroleum and natural gas sales	$ 197,306
Royalties	(28,641)
	168,665
Expenses	
Production expenses	108,154
General and administrative	45,314
Audit, legal and shareholder reporting	30,067
Land and engineering services	66,012
Salaries and benefits	113,145
Office rent	69,709
Advertising and promotion	7,150
Stock-based compensation	420,037
Depletion, depreciation and accretion	136,726
	996,314
Loss before other items	(827,649)
Other income	
Interest	45,000
Net loss, representing deficit, end of period	$ (782,649)
Loss per common share - basic and diluted	$ (0.09)
Weighted average number of shares outstanding	8,963,695

Mirage Energy Ltd.

Statement of Cash Flows

Period from incorporation on March 17, 2006 to December 31,		**2006**
		(Note 1)
Operating activities		
Net loss	$	(782,649)
Items not affecting cash:		
Depletion, depreciation and accretion		136,726
Stock-based compensation		420,037
		(225,886)
Changes in non-cash working capital		
Accounts receivable		(641,405)
Prepaid expenses		(15,982)
Accounts payable and accrued liabilities		431,635
		(451,638)
Financing activities		
Issue of common shares		943,000
Issue of flow-through shares		6,767,136
Exercise of stock options and warrants		137,900
Share issue costs		(271,754)
		7,576,282
Investing activities		
Cash acquired on business acquisition (note 3)		339,666
Acquisition of resource properties		(7,307,333)
Accounts payable for capital expenditures		618,308
		(6,349,359)
Increase in cash representing cash, end of year	$	775,285
Supplemental cash flow information		
Broker warrants issued for share issue costs	$	19,724
Asset retirement obligations incurred		177,846

1. **Incorporation and nature of business**

Mirage Energy Ltd. ("the Company") was incorporated under the Business Corporations Act (Alberta) on March 17, 2006. The Company is involved in the production, exploration and development of petroleum and natural gas properties. On July 21, 2006, the Company completed an amalgamation with Wolf Capital Corp. ("Wolf"), a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange ("the Exchange"). Wolf acquired Mirage as its qualifying transaction with the amalgamation recorded as a reverse takeover of Wolf by Mirage, by virtue of the fact that Mirage shareholders would control the amalgamated company (see note 3). Subsequent to the acquisition, Wolf and Mirage amalgamated and continued the operations of the amalgamated company under Mirage Energy Ltd. and continues business under that name.

The financial statements of the Company for the period ended December 31, 2006 include the operating results of the Company prior to the acquisition and the results of the amalgamated company after July 21, 2006.

2. **Significant accounting policies**

The financial statements of the Company have been prepared by management in accordance with Canadian generally accepted accounting principles applied on a consistent basis within reasonable limits of materiality and within the framework of the accounting policies summarized below:

a) Revenue recognition

Revenues associated with sales of petroleum and natural gas and all other items are recorded when the risks and rewards of ownership are transferred to the buyer.

b) Measurement uncertainty

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events at the balance sheet date. Actual results could differ from those estimated. Specifically, the ceiling test and the amounts recorded for depletion, depreciation, accretion and asset retirement obligations are based on estimates of proved reserves, future oil and natural gas prices, future costs and other relevant assumptions. By their nature, these estimates are subject to measurement uncertainty and the effect on the financial statements of change sin such estimates in future periods could be significant.

2. Significant accounting policies (continued)

c) Property, plant and equipment

The company follows the full-cost method of accounting for oil and gas properties, whereby all costs associated with the exploration for, and development of oil and natural gas reserves, whether productive or unproductive, are capitalized. Costs capitalized include land acquisitions costs, geological and geophysical expenditures, carrying charges on undeveloped properties and drilling and overhead expenses related to exploitation and development of both productive and non-productive wells.

The Company performs a ceiling test calculation under a two part process. Part I, the recognition of impairment, is determined by comparing the carrying value of property and equipment with the sum of the undiscounted cash flows expected to result from the production of the Company's proved reserves. Cash flows are calculated based on management's best estimate of future prices. If impairment exists, Part II calculates the magnitude of the impairment by comparing the carrying value of the property and equipment to the fair value of proved and probable reserves. Fair value is estimated using accepted present value techniques, which incorporate risk and other uncertainties as well as the future value of reserves when determining expected cash flows. Any excess carrying value above the net present value of future cash flows would be recorded as impairment and charged as additional depletion expense in the statement of operations.

Proceeds from the sale of petroleum and natural gas properties are applied against capitalized costs, without any gain or loss being recognized, unless such sale would significantly alter the rate of depletion.

Under full cost accounting, petroleum and natural gas properties are depleted using the unit-of-production method based upon estimated proved petroleum and natural gas reserves determined by independent petroleum engineers. Costs of significant unproved properties, met of impairments, are excluded from the depletion calculation. These properties are assessed annually to ascertain whether impairment has occurred.

d) Joint operations

All oil and gas exploration and development activities are conducted jointly with others and accordingly, the Company only reflects its proportionate interest in such activities.

e) Flow-through shares

Resource expenditures deductions for income tax purposes that arise from exploration and development activities and which have been funded by flow-through share arrangements, are renounced to investors in accordance with income tax legislation. On the date that the Company files the renunciation with the tax authorities, a future income tax liability is recorded and share capital is reduced by the estimated tax benefits transferred to shareholders.

f) Cash and cash equivalents

The Company considers deposits in banks, certificates of deposit and short-term investments with original maturities of three months or less as cash and cash equivalents.

2. Significant accounting policies (continued)

g) Asset retirement obligation

The Company recognizes the estimated fair value of an asset retirement obligation ("ARO") in the period in which it is incurred when a reasonable estimate of the fair value can be made. The fair value of the estimated ARO is recorded as a liability with a corresponding increase in the carrying amount of the related asset. ARO is initially measured at fair value and subsequently adjusted for the accretion of discount and any changes to the underlying cash flows. The capitalized amount is depleted on a unit-of-production basis over the life of the proved reserves. The liability amount is increased each reporting period due to the passage of time and the amount of accretion is charged to earnings in the period. Revisions to the estimated timing of cash flows or to the original estimated undiscounted cost will result in an increase or decrease to ARO. Actual costs incurred upon settlement of the ARO are charged against the ARO to the extent of the liability recorded

h) Loss per share

Basic loss per share is calculated using the weighted average number of shares outstanding during the year. Diluted loss per share is calculated based on the treasury stock method, which assumes that any proceeds obtained on the exercise of options or warrants would be used to purchase common shares at the average price during the period.

i) Stock-based compensation

The Company uses the fair value method of accounting for options granted to employees and consultants. The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model and charged to earnings over the vesting period with a corresponding increase in contributed surplus. Upon the exercise of the stock options, consideration received together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

j) Income taxes

The Company follows the liability method of accounting for income taxes. Under this method, future income taxes reflect the tax consequences of temporary differences between the balance sheet carrying amounts and their corresponding tax bases. Future income taxes are calculated using the tax rates and laws that are expected to apply when these temporary differences are reflected in taxable income. No recognition is made for future tax assets unless it is more likely than not that the Company would obtain future profitable operations.

k) Flow-through shares

Resource expenditures deductions for income tax purposes that arise from exploration and development activities and which have been funded by flow-through share arrangements, are renounced to investors in accordance with income tax legislation. On the date that the Company files the renunciation with the tax authorities, a future income tax liability is recorded and share capital is reduced by the estimated tax benefits transferred to shareholders.

2. **Significant accounting policies (continued)**

l) Other property, plant and equipment

The Company amortizes other property, plant and equipment on the declining balance method at the following rates:

Leasehold improvements	SL – 5 years
Computer equipment	30%
Furniture and equipment	20%

The rates are reduced by one-half in the year of acquisition.

3. **Qualifying transaction**

Wolf Capital Corp. ("Wolf") completed its qualifying transaction by acquiring 100% of the issued and outstanding shares of Mirage Energy Ltd. ("Mirage") on July 21, 2006. Mirage is considered to be the purchaser as it has the majority of the shares after the amalgamation. As such, the acquisition is recorded as a reverse takeover by Mirage of Wolf.

The following table sets out the fair value of the net assets acquired and incorporated into the Company:

		2006
Net assets acquired		
Working capital	$	380,868
Proceeds from exercise of options assumed		49,700
		428,768
Expenses of transaction		(89,102)
	$	339,666
Consideration given		
4,035,000 common shares	$	339,666

4. **Property and equipment**

	Cost	**Accumulated amortization**	**Net book value**
Petroleum and natural gas properties	$ 7,444,541	$ 125,505	$ 7,319,036
Furniture, equipment and leasehold improvements	40,638	5,846	34,792
	$ 7,485,179	$ 131,351	$ 7,353,828

Costs excluded from depletion for 2006 - $2,883,824 as these costs are for unproved and major development projects at year end. The Company conducted a separate impairment test on these properties and concluded that no impairment had occurred.

Capitalized costs directly related to the petroleum and natural gas properties are $84,500.

4. **Property and equipment (continued)**

The Company's ceiling test calculation, performed at December 31, 2006 resulted in no additional depletion recorded The future prices used by the Company in estimating cash flows were based on forecasts by an independent reserves evaluator, adjusted for the Company's quality and transportation differentials. The following table summarizes the benchmark prices used in the calculation at an exchange rate of $1 CDND to $0.862 USD:

	WTI UNESC $US/BBL	WT1 @Cushing $US/BBL	EDM Oil price D2S2 $/BBL	Heavy Oil 25 API Hardisty $/BBL	Heavy Oil 12 API Hardisty $/BBL	NYMEX Henry Hub Reference US$/Mcf
2007	.65.00	65.00	75.12	53.34	44.25	7.35
2008	63.00	65.52	75.71	54.51	45.01	7.86
2009	60.00	64.27	74.26	54.21	45.21	7.70
2010	56.50	61.73	71.30	52.76	44.26	7.50
2011	53.00	59.07	68.20	51.15	43.15	7.70
2012	52.00	59.11	68.25	51.19	43.19	7.80
2013	52.00	60.29	69.62	52.21	44.21	7.96
2014	52.00	61.50	71.01	53.26	45.26	8.12
2015	52.00	62.73	72.43	54.32	46.32	8.28
2016	52.00	63.98	73.88	55.41	47.41	8.44
2017	52.00	65.26	75.35	56.52	48.52	8.65
2018	52.00	66.57	76.88	57.65	49.65	8.87
Thereafter	+ 2%/year	+ 2%/year	+2%/year	+2%/year	+2%/year	+ 2%/year

5. **Bank loan**

The Company has available to it a revolving loan up to maximum of $500,000. The loan is due on demand at an interest rate of prime plus 1%, subject to covenants and a general security agreement. As at December 31, 2006 no amounts were withdrawn against the facility.

6. **Asset retirement obligations**

At the date of completion of drilling and testing, the Company identified obligations related to oil and gas properties and records a liability equal to the present value of expected future assets retirement obligations. The total future ARO was estimated by management based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon the wells and facilities and the estimated timing of the costs to be incurred in future periods. The Company has estimated the net present value of its total ARO to be $183,211 as at December 31, 2006 based on an undiscounted future liability of $349,740 and incorporated the Company's credit-adjusted risk-free interest rate of 9.0% and inflation rate of 2.0%. These payments are expected to be made over the next eight years.

6. Asset retirement obligations (continued)

The following table reconciles the Company's asset retirement obligations:

		2006
Balance, beginning of period	**$**	**-**
New liabilities incurred		**177,846**
Accretion expense		**5,375**
Balance, December 31, 2006	**$**	**183,221**

7. Share capital

Authorized:

Unlimited number of:

Common voting shares

Preferred non-voting shares

Issued:

	Number of shares		Amount
Common shares			
On incorporation	2,000	$	500
Pursuant to private placement			
Non flow-through shares	3,770,000		942,500
Flow-through shares	3,770,000		942,500
Business acquisition (note 3)	4,035,500		339,666
Private placement of flow-through shares	7,829,000		3,748,500
Private placement of flow-through shares	3,516,417		1,992,636
Exercise of flow-through warrants	120,000		95,089
Exercise of options	239,500		47,900
Subscription receivable	-		(82,500)
Share issue costs	-		(291,478)
Balance December 31, 2006	23,282,417	$	7,735,313

	Number of warrants		Amount
Warrants			
Flow-through share warrants on issue of flow-through shares	3,914,500	$	166,000
Issuance of agent warrants	120,985		19,724
Exercise of warrants	(120,000)		(5,089)
	3,915,485	$	180,635

7. Share capital (continued)

Warrants

As at December 31, 2006, the following warrants were outstanding:

Warrants outstanding	Warrant price	Weighted average remaining contractual life	Number of warrants currently exercisable	Weighted average exercisable price of warrants currently exercisable
3,794,500	0.75	0.25	3,794,500	0.75
120,985	0.50	1.00	120,985	0.50
3,915,485	0.74	0.26	3,915,485	0.74

Subsequent to year-end, 3,794,500 warrants exercisable at $0.75 per warrant expired without being exercised.

Options

	Stock options	Weighted average exercise price $
Outstanding beginning of the period	-	-
Granted	3,760,000	0.40
Cancelled	(350,000)	0.40
Outstanding end of the period	3,410,000	0.40

Options outstanding	Option price	Weighted average remaining contractual life	Number of options currently exercisable	Weighted average exercisable price of options currently exercisable
3,410,000	0.40	4.50	1,253,208	0.40

Under the Company's stock option plan, the Company may grant options to employees, officers and directors up to 10% of its issued and outstanding common shares. In addition, the aggregate number of shares so reserved for issuance to any one person shall not exceed 5% of the issued and outstanding shares. Under the plan, options are exercisable at varying vesting provisions for a maximum term of five years.

7. **Share capital (continued)**

Options (continued)

For the period ended December 31, 2006, the Company recorded compensation expense totaling $420,037 included within contributed surplus for the options issued and vested during the period as determined based on the fair value of the stock options at the grant date estimated using the Black-Scholes model with the following assumptions:

	2006
Volatility rate	75%
Risk-free interest rate	3.0%
Dividend yield rate	0.00%
Forfeiture rate of	0.00%
Weighted average life	5.00 years

Escrow

As at December 31, 2006, there were 6,144,750 shares held in escrow.

8. **Contributed surplus**

A summary of the status of contributed surplus as of December 31, 2006 and the changes during the period is presented below:

		2006
Balance, beginning of period	$	-
Fair value assigned to stock options		420,037
Balance, end of period	$	420,037

9. **Income taxes**

(a) Income tax expense

The provision for income tax reflects an effective income tax rate which differs from federal and provincial statutory income tax rates. The main difference is as follows:

For the period ended December 31,		2006
Loss before income taxes	$	(782,649)
Enacted income tax rate		35.07%
Expected income tax recovery	$	(274,500)
Increase (decrease) in taxes resulting from:		
Resource allowance		23,000
Stock-based compensation		147,000
Non-deductible expenses		5,000
Valuation allowance		99,500
Income tax expense	$	-

(b) Components of the net future income tax asset (liability)

Temporary differences and carry forwards that give rise to future income tax assets as of December 31, 2006 are as follows:

As at December 31,		2006
Non-capital losses	$	160,000
Property, plant and equipment		(131,500)
Share issue costs		71,000
Total gross future tax assets		99,500
Valuation allowance		(99,500)
Net future income tax assets	$	-

The valuation allowance offsets the net future income tax assets for which there is no assurance of recovery. The valuation allowance is evaluated considering positive and negative evidence about whether the future income tax assets will be realized. At the time of evaluation, the allowance is either increased or reduced, reduction could result in the complete elimination of the allowance, if positive evidence indicated that the value of the future income tax assets is no longer impaired and the allowance is no longer required.

9. **Income taxes (continued)**

(c) Tax pools

As at December 31, 2006, the Company has available for deduction against future taxable income, the following approximate amounts:

		2006	Rate
Operating loss carry forwards	$	**494,000**	-
Share issue costs		**218,000**	20%
Canadian development and exploration expenditures		**5,154,000**	30 - 100%
Canadian oil and gas property expenditures		**1,128,000**	10%
Capital cost allowances		**708,000**	20-25%
	$	**7,702,000**	

The availability of deduction of the operating loss carry forwards against future taxable income expires in the year 2016.

The Company has renounced available tax pools in Canadian development and exploration expenditures to its shareholders as outlined in Note 10 with respect to its flow through share commitments.

10. **Commitments**

During 2006, the Company issued 15,235,417 of flow-through common shares for proceeds of $6,871,548. The Company is committed to renounce resource expenditures to the subscribers for income tax purposes by December 31, 2006 and to incur qualifying expenditures of this amount by December 31, 2007. The renunciation of the qualifying resource expenditures to shareholders was filed with the tax authorities in February 2007. During the year, $5,153,949 was incurred with the remaining amount of $1,717,599 to be incurred by December 31, 2007.

A future tax liability approximating $2,268,000 will be recorded in 2007 with a corresponding reduction in share capital.

11 **Related party transactions**

The Company had the following related party transactions measured at the exchange rate, which is the amount established and agreed to by the related parties and which are similar to those negotiable with third parties.

The Company owes a related company by virtue of common directors $700,706 included in accounts payable and accrued liabilities for costs associated with joint venture operations during the period. In addition, the Company paid $85,536 with respect to general and administrative costs for the period and paid $69,709 for office rent.

12. Subsequent events

Subsequent to the year the Company granted 350,000 stock options at an exercise price of $0.50 for a term of five years with vesting provisions. The Company also granted 250,000 stock options at an exercise price of $0.40 for a term of five years with vesting provisions.

Subsequent to the year the Company cancelled 350,000 stock options and 175,000 stock options expired. The stock options had an exercise price of $0.40 per share.

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